Opinion

THURSDAY, AUGUST 17, 2017

NATIONALISM & DIVERSITY

Kerala CM Pinarayi Vijayan

Indian nationalism is a confluence of diversity. Nationalism will collapse if we try to annihilate this diversity. If nationalism is constructed on narrow-minded sentiments, a great threat is waiting to emerge

Regaining loss in export momentum critical

Fixing the exchange rate is one part, but more important is doing this for labour laws, poor infrastructure, etc

INDIA'S EXPORTS MAY now have risen eleven months in a row but the recent loss in momentum is worrying. Exports have decelerated two months in a row, to 4.4% y-o-y in June and 3.9% in July from 8.3% in May. And, when seasonally adjusted month-on-month, they have fallen for the fifth straight month. Economists at Nomura point out export volumes in July (ex-oil) contracted year-on-year. While the appreciating rupee is certainly a factor that needs to be addressed, economists at HSBC argue exchange rates explain less than 20% of weakness in exports while domestic bottlenecks explain half the slowdown and the balance third is explained by global growth. Also, the currency matters more for services than for goods—the rupee has gained 1.4% against the dollar in the last two years whereas the Bangladeshi taka has lost 3.7%, and the Chinese renminbi has depreciated by 4.2%.

To be sure, the rollout of the GST could have disrupted the manufacturing sector both in June and July, given the de-stocking and supply-chain disruptions that took place. However, once the transition to the new system is complete, the benefit of input-tax credit should help manufacturers. In the meanwhile, the other factors responsible for the slowdown in exports need to be looked at. One big pain point that analysts draw attention to is pharmaceuticals, a key driver of exports—the sector de-grew 5.4% in July y-o-y after contracting 2.3% in June. Indian drug firms are grappling with serious regulatory issues in the US, relating to quality control, and need to sort these out quickly. The more serious issue, especially in labour-intensive export categories, relates to high wage costs and rigid labour laws, both of which have made India uncompetitive *vis-a-vis* peer economies. In this context, given that 60% of Indian exporters are small-scale producers, which tend to be labour-intensive, bringing in new legislation such as a minimum wage will make things worse. Poor infrastructure—the high cost of electricity, for instance—has also handicapped exporters. Again, as economists at HSBC observe, the relative low ranking of India in the 'ease of doing business' surveys signals Indian businesses are at a relative disadvantage. Much higher interest costs are another factor, especially for smaller firms that borrow in the informal market.

Although world trade volumes are forecast to grow at 4% in 2017 versus 2.3% in 2016, India's competitors, and not just China, are doing much better. Indeed, the space opened up with higher wages in China, forcing it to vacate part of labour-intensive exports like garments and leather & footwear, is being taken up by other countries—between 2010-16, for instance, Bangladesh's total exports grew by 82%, Vietnam's 145% versus a mere 17% for India. Over the past three years, India has ceded share not just in manufactured goods such as textile yarns, but also in primary exports such as food and raw materials. After rising in the early 2000s, India's share in world exports has stagnated at rather low levels over the last few years. As such, a $300 billion target for exports now looks difficult—and this would be lower than the $318.6 billion achieved in 2013-14 and the $316.5 billion in 2014-15.

Gold is passé, equity is in

Mutual funds and insurance investments up, gold down

HISTORICALLY, THE INDIAN household's fascination with gold has always been a sore point with economic planners, given how gold imports have wreaked havoc with the current account deficit. All this, however, is changing, and fast, with households now saving a lot more in 'financial' assets and less in 'physical' ones like land and gold. The process started a few years ago, but has got a real fillip in recent years, partly fuelled by the much greater returns financial assets are giving—though there is no concrete evidence, it is also possible that, as more black money came into the formal economy after demonetisation, this may have given a further push.

Between FY12 and FY16, overall household savings fell from 23.6% of GDP to 19.1% of GDP but, within this, that saved in physical assets fell from 67.4% to 56.5%—within just four years, that is a big shift. Though there is no RBI estimate after FY16, data from other sources suggests the trend has accentuated dramatically. In FY16, a total of ₹1.4 lakh crore was invested by households in 'first year premium' of insurance firms—if that was a 22.3% jump over the previous year, this rose by 26.2% in FY17 to ₹1.8 lakh crore; to put this in perspective, that's 1.2% of FY17 GDP being put into 'first year premium'. An even bigger jump was seen in mutual funds where the 'assets under management'—AUM comprises the stock of investments, their appreciation as well as new flows—rose a whopping 42.3% in FY17 to cross ₹17.5 lakh crore. And in the first four months of FY18, this rose by nearly 14%, to ₹20 lakh crore. If you strip out the stock and just look at fresh inflows into debt and equity mutual funds, this was ₹106,000 crore in FY16 and then jumped 2.7 times to ₹283,000 crore in FY17—in the first four months of FY18, mutual fund inflows are over ₹1.4 lakh crore. As a proportion of GDP, this means fresh flows rose from 0.8% in FY16 to 2.1% in FY17 to 2.5% in the first four months of FY18. While this can change if stock-market returns dip, the fact that households are looking at relative returns is a positive. And keep in mind that while retail investor portfolios dropped to around 41.4 million in March 2013, they rose to 52.3 million in March 2017 and also the fact that AUM growth in B-15 cities (beyond the Top 15) is higher than in the T-15. Indian households appear to have come of age when it comes to choosing their savings instruments.

ElectricBUY

The govt sets the tone for adoption of electric vehicles by announcing its intention to buy 10,000 electric sedans

BY EXPRESSING AN intention to buy 10,000 electric sedans, the government has signalled that it is ready to be the change it wants to see in India, to paraphrase a famous Gandhian uttering. The government is aiming to stop the sales of petrol/diesel cars by 2030, and electric vehicles or EVs are crucial to that vision being realised. The state-run Energy Efficiency Services Limited (EESL) has invited bids for the sedans that are to be purchased in two phases—the 1,000 to be bought in the first phase will be for the use of government departments within Delhi and the National Capital Region. EESL has specified that it wants four-door sedans that can run 120-150 kilometres on a single charge while 400 charging points will be set up in Delhi-NCR in the first phase. While the government can cite its own example to citizens in prodding them to go for EVs, encouraging EV adoption will need more than just incentives like the ones provided under the Faster Adoption and Manufacturing of Electric Vehicles (FAME) scheme.

The key challenge to EV adoption is providing adequate charging infrastructure. Enough charging points along the roads, at the first glance, would seem to take care of the problem, but imagine the kind of traffic snarls lines of cars waiting to charge at specific points would create. Resolving that would mean significant ramping up of existing roads and pavements to handle charging demand. Of course, a more imaginative solution would be to have battery-swapping points at existing fuel stations. Even as financial incentives and adequate charging infrastructure could make EVs appealing, part of pushing their adoption has to be reducing the appeal of fossil-fuel powered cars. To that end, a carbon tax can be very effective, especially one that factors in the huge social costs that harmful emissions impose. The large taxes that are there on petrol and diesel today could be interpreted as carbon tax, but turning people off petrol/diesel would require even larger imposts. EVs may seem to be the mobility choice of the future—more so against the backdrop of climate change—but there remains much to be done before their adoption achieves a certain criticality.

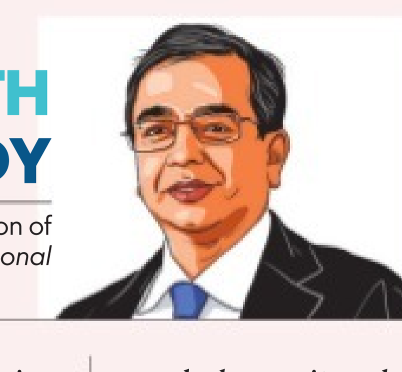
GORAKHPUR TRAGEDY

FAILURES IN POLICY, PLANNING & REGULATION HAVE LED TO POOR PERFORMANCE OF HEALTH SYSTEMS. GORAKHPUR SHOULD SPUR CORRECTIVE ACTION

Symptom of a long-neglected malady

K SRINATH REDDY

President, Public Health Foundation of India. *Views are personal*



AS PER THE story of Krishna's birth, seven of his elder siblings were killed as babies by Kamsa who was in mortal fear of Devaki's progeny born in prison. It is a tragic irony that many babies and young children died in controversial circumstances in a Gorakhpur hospital on the eve of Janmashtami, which celebrates Krishna's birth. Reforms are needed in our health system to ensure that hospitals meant to protect life do not become prisons where life is snatched away.

It is important that the Gorakhpur tragedy is not marked as a mere moment of evanescent public outrage that swiftly gets buried in the shifting sands of political bickering, or is abandoned by fickle media attention that hurriedly moves to yet another failure of public services. The tragedy must compel us to seriously review the sorry state of our public health system, and earnestly implement remedial reforms to enhance its access, effectiveness, empathy, impact and accountability.

Tapering, and then complete cut-off, of oxygen supply due to unpaid bills is the *cause célèbre* that triggered the din and drama of acrimonious TV debates. This callous act represents merely the tip of the iceberg that is sinking the ship of our health system. The inability of our dysfunctional health system to deliver easily accessible, appropriate, quality assured and affordable healthcare in an effective and equitable manner is the continuing story that calls for serious debate and committed corrective response.

Gorakhpur and neighbouring districts of Uttar Pradesh have economic, health and other social indicators that compare poorly with national averages and tell a story of neglected development. Infant mortality is high, and many of the surviving children are malnourished. Viral encephalitis has been rampant in the area. Even though vaccination against Japanese encephalitis provided some protection, the problem continues with other forms of encephalitis and undiagnosed scrub typhus implicated as other causes of severe illness. Mortality is high, when undernourished children with low resistance are hospitalised for critical care, and life-support becomes essential in severe cases. The deaths in Gorakhpur represented a mix of clinical diagnoses, including pneumonia. In many such cases, oxygen was an essential part of respiratory support. While the underlying disease is the recorded cause of death, interruption of respiratory support could have stalled recovery and hastened death. It must be regarded as a contributory cause, at least in some cases. The truth about why the oxygen supply ceased must be uncovered and criminal culpability fixed. However, the response should not end there. This shocking event should serve as a jolt to our collective conscience and stir us to examine why child health indicators are so poor in some regions of our country and why public heath systems are configured for poor performance in many states.

The catalogue of public health failures in Eastern Uttar Pradesh is extensive: high levels of childhood malnutrition that arise from improvident early motherhood and poor feeding practices, creating high vulnerability for acquiring infections and succumbing to them; insanitary living environments that multiply myriad microbes and breed insect vectors that transmit diseases from animals to humans; deficient epidemiological knowledge of changing disease profiles and emerging infectious agents; inadequate surveillance systems that fail to provide accurate real time data; limited presence and poor performance of primary care facilities in the public sector; non-participation of private health care providers in disease reporting and variable quality of primary care provided by them.

The list grows as we examine the state of hospitals in states with weak health systems: inadequately-resourced district hospitals in many areas; overcrowding representing both low bed-strength and failure of primary care as an efficient filter; poor hospital management practices where busy clinicians have to perform many administrative roles; shortages of specialists and allied health professionals; lack of standardised clinical protocols and operational practices; opaque and corruption-prone procurement systems; absence of electronically maintained and regularly monitored stock inventories; underpaid government doctors permitted to run private clinics; lack of efficient referral–follow-up linkages with primary health services.

Many of these problems result from concurrent failures in policy, planning and regulation: low public financing for health; underinvestment in production and equitable deployment of healthcare providers of different categories and competencies; low priority for creating and utilising public health expertise; antiquated methods of hospital management; centralised bureaucracies that do not delegate authority to hospital managements; lack of quality audits; vagaries in approach to and vacillation in implementation of universal health coverage. When we look at health beyond healthcare, lack of overall progress and glaring inequities in the social indicators of health explain why so many fall ill in the first place.

> The Gorakhpur event is an abomination, but not an aberration. There are many instances in the past of similar failures of the public health system. Political determination to design and deliver universal health coverage as an overarching framework of health system reform is crucial to avoid a repeat

The directory of remedial responses, too, is large, but presents a clear agenda for action: increase public funding for health at both central and state levels; prioritise increased health expenditure on primary health services, especially through technology enabled allied health professionals functioning from sub-centres close to the community; ensure success in the sanitation and clean drinking water missions; improve child nutrition through interventions that extend from pre-conception to school years; strengthen epidemiological and surveillance data systems; upgrade district hospitals and link new medical and nursing colleges to them; raise pay scales of government doctors and bar them from private practice; invest in developing and deploying expertise in public health management and hospital management; mandate credible, transparent and accountable procurement systems with electronically monitored inventories of drugs and consumables; quality audits, with technical, administrative and social audit components. Also crucial is the political determination to design and deliver universal health coverage as an overarching framework of health system reform.

The Gorakhpur event is an abomination, but not an aberration. In December 2014, just before the new year, the country was horrified by the sterilisation deaths in Chhattisgarh and the eye camp blindings in Punjab. We also remember the hospital fires in Kolkata and Bhubaneswar. Other unreported tragedies occur regularly on a smaller scale in all parts of the country. The Gorakhpur tragedy is yet another publicised chapter in the dismal tale of health system failures. However, this latest tragedy must steel our resolve to reform and revitalise our health services to prevent recurrence of similar failures.

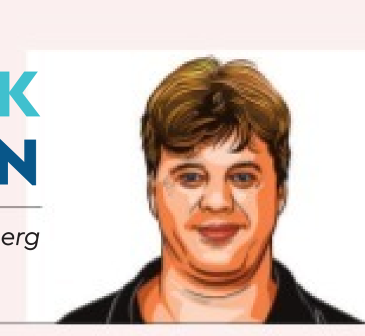
"Nobody has been corrected; no one has known to forget, nor yet to learn anything" is a comment of French Naval Officer Charles Louis Etienne in 1796, which the renowned diplomat Talleyrand paraphrased later while deriding the Bourbons with the dismissive phrase "they have learned nothing, and forgotten nothing." It appears that we too have not learned much from the tragedies of the past in correcting the fault lines of our dysfunctional health system though they lie nested in our memory. Gorakhpur must change that. Combining political will with professional skill, we can transform our moribund health systems. We owe it to the innocent children who lost their lives because of an unconscionable failure of society to protect them. Overcoming partisan passions, we must all now pursue the right path and do our duty to restore justice, as Krishna grew up to remind us in the *Gita*.

How technology might get out of control

The pace of change—especially in biotechnology, computers and software—may make regulation by humans impossible

MARK BUCHANAN

Bloomberg



HUMANITY HAS A method for trying to prevent new technologies from getting out of hand: explore the possible negative consequences, involving all parties affected, and come to some agreement on ways to mitigate them. New research, though, suggests that the accelerating pace of change could soon render this approach ineffective.

People use laws, social norms and international agreements to reap the benefits of technology while minimising undesirable things like environmental damage. In aiming to find such rules of behaviour, we often take inspiration from what game theorists call a Nash equilibrium, named after the mathematician and economist John Nash. In game theory, a Nash equilibrium is a set of strategies that, once discovered by a set of players, provides a stable fixed point at which no one has an incentive to depart from their current strategy.

To reach such an equilibrium, the players need to understand the consequences of their own and others' potential actions. During the Cold War, for example, peace among nuclear powers depended on the understanding the any attack would ensure everyone's destruction. Similarly, from local regulations to international law, negotiations can be seen as a gradual exploration of all possible moves to find a stable framework of rules acceptable to everyone, and giving no one an incentive to cheat—because doing so would leave them worse off.

But what if technology becomes so complex and starts evolving so rapidly that humans can't imagine the consequences of some new action? This is the question that a pair of scientists—Dimitri Kusnezov of the National Nuclear Security Administration and Wendell Jones, recently retired from Sandia National Labs—explore in a recent paper. Their unsettling conclusion: The concept of strategic equilibrium as an organising principle may be nearly obsolete.

Kusnezov and Jones derive insight from recent mathematical studies of games with many players and many possible choices of action. One basic finding is a sharp division into two types, stable and unstable. Below a certain level of complexity, the Nash equilibrium is useful in describing the likely outcomes. Beyond that, lies a chaotic zone where players never manage to find stable and reliable strategies, but cope only by perpetually shifting their behaviours in a highly irregular way. What happens is essentially random and unpredictable.

> Below a certain level of complexity, the Nash equilibrium is useful in describing the likely outcomes. Beyond that, players never manage to find stable and reliable strategies, but cope only by perpetually shifting their behaviours in a highly irregular way

The authors argue that emerging technologies—especially computing, software and biotechnology such as gene editing—are much more likely to fall into the unstable category. In these areas, disruptions are becoming bigger and more frequent as costs fall and sharing platforms enable open innovation. Hence, such technologies will evolve faster than regulatory frameworks—at least as traditionally conceived—can respond.

What can we do? Kusnezov and Jones don't have an easy answer. One clear implication is that it's probably a mistake to copy techniques used for the more slowly evolving and less widely available technologies of the past. This is often the default approach, as illustrated by proposals to regulate gene-editing techniques. Such efforts are probably doomed in a world where technologies develop thanks to the parallel efforts of a global population with diverse aims and interests. Perhaps future regulation will itself have to rely on emerging technologies, as some are already exploring for finance.

We may be approaching a profound moment in history, when the guiding idea of strategic equilibrium on which we've relied for 75 years will run up against its limits. If so, regulation will become an entirely different game.

LETTERS TO THE EDITOR

Where is the fight against corruption?

Apropos of the article, 'The taxonomy of corruption' (*FE*, August 14), the scope for corruption and fraud enlarges in concert with economic growth and the hope of a turnaround gets jaded with the passage of time. According to the report, India is ranked 79 among 176 countries. In the run up to the Lok Sabha elections 2014, a promise was repeated umpteen times that the money stashed illegally in bank accounts abroad would be brought back. Later, the Panama papers on secret bank accounts of some well-known people surfaced. Except for the occasional sound bites, nothing of consequence has accrued until now. Pakistan, our rogue neighbour, exhibited some urgency to investigate the expose on its Prime Minister and packed him off. Despite the Supreme Court chastising the government, the Lok Pal continued to exist on paper; it is nobody's pal now. CBI knuckled down to fix inconvenient opposition leaders to facilitate partisan political maneuvers. Like trapeze artists, elected representatives swung in abandon to help the ruling party form governments, even in states where they had been voted out. The FM accorded a special status in the budget for the corporates to have dialogue with political parties over lavish donations. However, the demonetisation, which, in fact, brought tears in the eyes of the underprivileged and spared the rich, and the valorous act of coupling the ordinary mortals with the Aadhaar are repeatedly projected as the greatest war against corruption.

— Haridasan Rajan, Kozhikode

●Write to us at feletters@expressindia.com

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L SOMASUNDARAM

Director, Research, Akara Research & Technologies

DEMONETISATION

Where is the impact of currency ban

The banking volume—deposits that have grown and credit that has shrunk—was too insignificant to have had an impact on the economic life of citizens in most parts of India

FOLLOWING THE ANNOUNCEMENT of demonetisation on November 8, 2016, there was a mixed response, with an initial widespread cheer. However, as the magnitude of scale of operations started emerging, there was considerable opposition. After the electoral success for the BJP post-demonetisation, it was argued by some that demonetisation was the acceptance of the citizens as an effort to cleanse the system, while others argued it was marketed with right packaging. But data released by RBI shows that there has not been any impact in most places due to demonetisation. It also reveals that there is an urgent need to revisit the financial inclusion strategies put in place so far.

While demonetisation was not unheard of, the scale this time was unprecedented. It was reported that about 86% of the notes in circulation were in the form of ₹1,000 and ₹500, indicating the scale of operations that would ensue.

Demonetisation and quarterly growth

Indian banking witnesses a cyclical pattern in quarterly growth (chart 1), with generally higher growth in deposits during the fourth quarter. In 2016-17, the Q3 growth reached the highest in the last five years.

In terms of credit (chart 2), Q4 has the highest growth, which has an effect in the subsequent year's Q1. Q3 usually registers a positive growth rate which gets accelerated in the subsequent Q4. In 2016-17, Q2 maintained the trend seen in the last few years, but Q3 credit growth fell flat as an immediate impact of demonetisation.

There are some possible reasons for this.

One, households in the lower income districts have had more cash in hand and had to deposit the same in banks.

Two, more accounts were opened, and had helped out some of the cash hoarders in their regions.

There were also reports of new bank accounts being opened by migrant labourers in cities to transfer money to their hometowns and families in rural areas. RBI has not released the data on the number of accounts for these quarters.

District-level analysis of deposit and credit

We look at India's districts in terms of per-capita deposit and credit; the districts are grouped in terms of percentile. We have considered Q3 data as it pertains to the demonetisation period. Moreover, there is unusual growth in per-capita deposits in Q3 of 2016-17 compared to Q3 in recent years.

A distinct feature of growth in Q3 is that districts with lower base of deposit—both total deposits and at per-capita levels—have shown higher growth compared to districts with a higher base of deposit. Districts in the bottom percentile in terms of per-capita deposit have registered a higher average growth rate in Q3 of 2016-17.

In terms of growth rate of per-capita credit in Q3 of each year since 2012-13, there has been uniform shrinking of credit growth across all percentiles. Though this would have an impact on the macro level, in per-capita terms the impact is meagre.

India's districts are distributed with a high skew in terms of banking parameters, reflective of the Lorenz curve of India's income distribution. While 70% of the country's 600-odd districts have less than ₹30,000 in terms of per-capita deposit, 70% of the districts have a per-capita credit of less than ₹18,000.

While focus was on the conversion of existing cash to new currencies, the greater issue was the lack of lower denomination banknotes (₹50, ₹100). At such low per-capita levels of banking finance, the lack of lower denomination notes was the underlying issue, and not the amount *per se*. In at least 50% of the districts, the weekly withdrawal limit was well within what the citizens could muster for an entire quarter. While hundreds stood repeatedly in queues, thousands watched, and may have felt, "How much cash were they hoarding? Whose cash are they exchanging?" One question that is still inconclusive is whether non-availability of cash in the required denomination implied non-availability of value and incomes?

This analysis hides regional and state-level issues. Tamil Nadu is a significant outlier. Excluding Chennai, we have a near-perfect distribution of the districts. Both per-capita deposit and per-capita credit outstanding are higher than national average at the bottom percentiles. Tamil Nadu is one state where there would have been higher impact on the people due to demonetisation, because of higher per-capita credit outstanding, which has shrunk due to demonetisation.

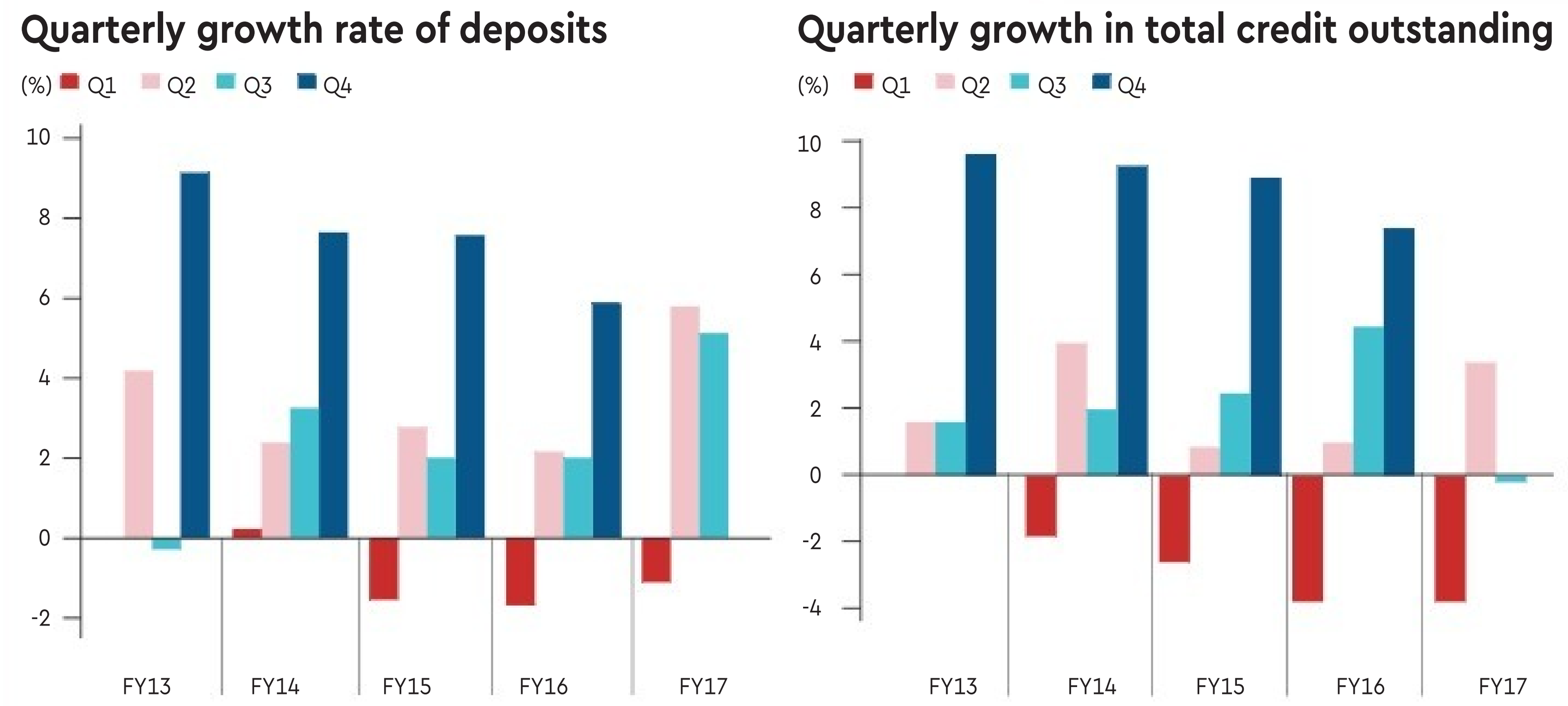
Punjab and Haryana are other outliers. The lowest percentile starts at ₹40,000 for per-capita deposit, and ₹35,000 for per-capita credit—about 10 times higher than the national average for the lowest percentile. Thus, districts of India can be grouped into the following categories:

- Urban-driven districts that have had historic payoffs like Mumbai;
- New urban centres like Coimbatore and Tiruppur, and in terms of scale, Bengaluru;
- Select states like Tamil Nadu, Punjab and Haryana driven by high per-capita income;
- The rest of India trying to migrate to any one of these above categories.

Districts in the top percentiles are concentrated in the northern, western and southern parts of India. The heartland and eastern parts are in the lowest percentile.

The banking volume—deposits that have grown and credit that has shrunk—was too insignificant to have had an impact on the economic life of citizens in most parts of India. What the data reveals is the persistently low level of financial inclusion, despite various efforts. The data also reveals that higher income states are also those with better banking reach and financial inclusion. It would have been interesting if there had been a state-level election in Tamil Nadu, where, as we have already seen, credit at per-capita level is equally high as deposits. It is imperative to strategise digital finance and its penetration to empower a larger section of population and achieve a liberal reach of economic opportunities.

(Ajay R, Research Associate at Akara, executed requisite statistical analysis of RBI data)



Source: Author computation based on RBI data on Basic Statistical Returns of Scheduled Commercial Banks

A trap called globalisation

MY KHAN

Former Economic Advisor, Sebi

In India, globalisation is leading to growth both of a new generation of young and rich, and millions of poor

Globalisation has raised questions in terms of emerging volatility, uncertainty, rise in poverty, and inequality in economic status of people in developing countries. It is said that globalisation is a hallow gift for the developing world and an award for rich countries from the WTO—hence a painful gap is visible between haves and have nots. However, globalisation is not a recent phenomenon; it started since the dawn of colonisation, including of India, when traders of the British Empire took away raw materials like cotton and jute for production in Lancashire and the same returned to India in the form of fine fabrics. Because India was a colony of Britain, this trade was imposed upon us. The same process was taking shape in the colonies of Portugal and Spain, especially in Africa.

But this form of trade changed after independence of India and other countries, and since then, a new turn took place in the structure of global trade—a kind of distortion of global trade on account of cut-throat competition that was followed by the forming of regional trading blocks such as the European Economic Community and European Free Trade Association, Latin American Free Trade Association, Andean Group, ASEAN, and COMECON. We can call this movement regional globalisation, which partially related to the whole world in terms of trade and technology. Later on, these regional trading blocks started intervening among each other's trade, shifting their professional labour and technology. Following the birth of the WTO came professionalised globalisation—the age we are living in today.

Of course, globalisation offers advantages such as production-scale efficiency, innovative technology, efficient utilisation of labour, net of tax price equalisation, and equalisation of productive world savings and investment resources. In fact, the WTO provided incentives to free flow of investment, technical knowledge, professionals and consumers.

> A simple first step to improve the excessively low poverty line in India is to base it on a "nutritious" food security line

However, globalisation has facilitated both investing and withdrawing funds at such speed that even financial growth finds it hard to keep up with the frequency of volatility in financial markets. Take the example of Intel. The company has been making its microchips faster while lowering the cost per chip to gain market share at an accelerated rate. It's nothing but expelling rivals to retain competitiveness and achieving monopolisation. Intel also moved most of its manufacturing capacities from the West to countries like Malaysia, Ireland, Israel, Turkey, North Korea and China, giving the company access to cheap and trained labour, and making it geographically close to its major markets.

In India, globalisation is leading to growth of a new generation of young and rich, and then there are millions of rural and urban poor—and this inequality is growing. The rich are becoming preoccupied with their own advancement, given global complexities, the poor are in a state of existential poverty. A step to improve the excessively low poverty line in India is to base it on a "nutritious" food security line, and then include education, sanitation, permanent housing and so on as part of the criteria.

Considering the size of India and her economic growth, poverty differs greatly from one state to another, so poverty lines should be adapted to each state and updated regularly. India is also infamous for child labour and underpayment. Solving this issue requires a different approach for towns and cities (factories) and for rural areas (agriculture).

For the last few years, India has not been able to attract substantial foreign capital, its exports have slowed, and agriculture and manufacturing are registering muted growth. If a major part of the population remains poor and is denied opportunities to become self-sufficient, the impact would be felt across the country and the results could be devastating.

Yet another unrest is seen among retired citizens. Public expenditure on pensions and healthcare could double by 2040. So, India has to focus on two issues—slowing of population growth and increasing employment opportunities by augmenting agricultural and industrial production. Agricultural sector would need better irrigation resources, fertilisers and mechanisation. India also lacks skilled staff in sectors like manufacturing, transport and financial. The government is working to reduce inequality and is extending its forces to unite the scattered countries into one universe of peace and productivity.

Can South Korea save the day?

KATHARINE HS MOON

(Non-resident Senior Fellow at the Brookings Institution, and Professor of Political Science at Wellesley College, US)

AS NORTH KOREAN dictator Kim Jong-un and US President Donald Trump's war of words escalates, Independence Day celebrations—commemorating the Korean Peninsula's 1945 liberation from Japanese rule—are unfolding in both North and South Korea. The occasion underscores not just the shared history between the two countries, but also the South's unique qualifications to bring about a peaceful resolution to the current military standoff.

As much as Kim may enjoy threatening the most powerful country in the world, the US has never been North Korea's primary target. On the contrary, the North's real objective has always been to ensure the survival of the Kim regime and, in the longer term, to secure the reunification of the Korean Peninsula under that regime's leadership. South Korea thus faces the most acute danger, and has the strongest incentive to alleviate tensions with the North.

That goal will not be advanced by South Korea's annual joint military exercise with the US, Ulchi-Freedom Guardian (UFG), which is geared towards preparing both countries for a conflict with the North. On the contrary, with sabre-rattling between North Korea and the US at an all-time high, the exercise—which will begin on August 21—could escalate the conflict dramatically.

Even in normal times, North Korea reacts angrily to UFG. Last year, it tested its fifth nuclear device just after the exercises were held. But now that North Korea is overtly threatening to launch missiles at the US territory of Guam, and being provoked by Trump, its response to another round of UFG could be less symbolic, and far more devastating.

If North Korea lashes out, the strategy of deterrence that underpins the US-South Korea alliance will have been fatally undermined. Deterrence means using a credible threat of punishment to prevent an opponent from initiating military engagement. And yet North Korea has already dismissed Trump's threats as a "load of nonsense." If this month's war games trigger a military confrontation or an outright exchange of fire, deterrence will officially have failed.

The problem is that, even if Trump and Kim recognise the corner into which they have painted themselves, neither has the political space to backpedal on their threats without risking serious domestic and international humiliation.

Worse still, both leaders lack credibility in the eyes of the other, and the world. China's leaders have long viewed Trump as unreliable, or "bu kaopu." Now, Trump's emotional response to North Korea's actions has further reinforced that assessment, and given Chinese leaders even less of a reason to get involved in the drama. Even Japanese Prime Minister Shinzo Abe, who has been Trump's most steadfast supporter among East Asian leaders, is wary of the domestic political consequences of Trump's brinksmanship.

Of course, Japan, as North Korea's ultimate historical enemy, would have no leverage over Kim anyway. The only country with the credibility, leverage and motivation to lead the way towards a peaceful resolution to the current crisis is South Korea. But South Korea has so far straddled the line between antagonism and diplomacy.

On the one hand, South Korea agrees with Trump on the need for tougher sanctions and military readiness, including full deployment of the US anti-ballistic missile defence system, known as Terminal High Altitude Area Defense, or THAAD. On the other hand, it has indicated that it would be willing to engage in joint military talks and diplomatic dialogue with North Korea, and it even invited Kim's government to participate in a joint Independence Day celebration. (The North refused, citing the planned UFG.)

South Korea needs to take a stronger approach. Rather than shove a weak opponent into a corner and risk them lashing out, South Korea should request indefinite postponement of this year's UFG, which would be counterproductive and is not essential at this time. The US and South Korea already held massive joint exercises involving 320,000 troops—more than six times the combined troop strength of the planned UFG—in March and April of this year, and in 2016.

During that period, the US also deployed a strike group, including the nuclear-powered aircraft carrier USS Carl Vinson, to the region, saying that it would counter "reckless acts of aggression" with "whatever methods the US wants to take." The US also docked one of the largest nuclear-powered submarines in the world, the USS Michigan, in South Korea, and held "decapitation exercises" to prepare troops to infiltrate North Korea and eliminate Kim and his ruling cohort.

Simply put, this month's UFG exercises are far from critical to the US-South Korea alliance. By suspending them, South Korea would have an opportunity to pursue inter-Korean military-to-military dialogue with the North, while reinstating basic communications channels, including hotlines, which were cut off early last year. The South should also urge its northern counterpart to coordinate the commemoration of Independence Day, a near-sacred day for all Koreans, as a symbolic gesture of a unified Korean past and possible future.

To be sure, South Korean President Moon Jae-in's administration has made such overtures, and to no avail. But it may be more successful if it can use a postponed UFG as leverage. In the event, South Korea would emerge as a legitimate broker in the conflict between the US and North Korea, rather than as a US lackey, as the Kim regime likes to view it. That would greatly improve the prospects of a future negotiation among the three actors, once things have cooled down.

South Korea, with its affinity to both the US and North Korea, is uniquely suited to defuse the current situation. The stakes are too high for it not to try.

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